

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

APPLICATION OF NORTHERN )  
KENTUCKY WATER DISTRICT (A) FOR )  
AN ADJUSTMENT OF RATES; (B) )  
A CERTIFICATE OF CONVENIENCE ) Case No. 2003-0224  
AND NECESSITY FOR IMPROVEMENTS )  
TO WATER FACILITIES IF NECESSARY )  
AND (C) ISSUANCE OF BONDS )

**PETITION FOR REHEARING**

Northern Kentucky Water District, by counsel, petitions pursuant to KRS 278.400 for a rehearing of a portion of the Order dated June 14, 2004.

On pages 16 through 18 of the order, the Commission discusses the calculation of the cost of service to Boone and Florence. The adjustment pertinent to the rehearing is the use of \$0.40 per 1000 gallons of water as the basis for the cost of water production - a figure intended to be used for purposes of negotiating a separation agreement with Boone and Florence in year 2000. As the testimony shows, the \$0.40 per 1000 gallons

"...is a number used to negotiate with Boone and Florence over a termination of service, and so I don't know exactly which treatment plants it comes from, but I do know that it's a number that may not have reflected actual number but reflected a negotiated number to use in negotiations with Boone and Florence to bring things to an amenable end." Transcript of Evidence, page 60.

The testimony is also uncontradicted that the \$0.252 is a more accurate number.

"It [\$0.252] is a better - it's a reflection of a better estimate because it reflects the circumstances as they exist today as to what they were, I believe, in '99, when they started negotiating with Boone and Florence." Transcript of Evidence, page 62.

The order makes several statements that are incorrect or at least reflect a misunderstanding of the evidence presented. First, the order states that the evidence

contradicts statements made in the prior rate case, Case No. 2002-00105 that the variable cost of water is \$0.40 per 1000 gallons. Obviously, the variable cost in this case is different from the last case, because the factors used to calculate that cost have changed. If the Commission's reasoning is correct, the variable cost of water can never change from that found reasonable in Case No. 2001-00105. In reality it will always vary from year to year based on the particular costs incurred for each particular year. However, the method used to calculate the cost has not changed from that prior case. In Case No. 2001-00105, Response to Item 18a, of the Commission's Order of September 9, 2003, the District explained how variable cost to Boone and Florence was calculated:

If you divide the variable cost of \$3,812,708.58 by gallons sold (District's Annual Report, Page 33) 10,487,612,000 you get \$.364 cents per 1000 gallons. When the District made this calculation, it was done for the Boone/Florence buy-out, based on 2000 numbers.

In the current case, the same method to calculate the variable cost was used. In Hearing Exhibit 3, the District calculated the current variable cost of water produced. It clearly shows that the current variable cost of water is \$0.252 per 1000 gallons. To the extent that the same methodology was used in both the prior case and the pending case, there should be no issue as to the appropriateness of the calculation.

The difference in the prior case and the pending one is the amount of water sold and the variable costs for the components of the calculation. Contrary to the assertion in the order of June 14, 2004, it is not unreasonable to use current costs for the calculation. In fact, if the District had proposed to use year 2000 amounts for expenses and water sales to calculate any adjustment in the pending case, it would have been admonished by the Commission for using outdated numbers. Yet, that is exactly what the Commission has done. It is using numbers admittedly and unquestionably from year 2000 for an adjustment to a 2003 test year.

The District believes that the Commission has erroneously used outdated water production numbers from the prior case to calculate the current cost of water production. It is unreasonable for the District's revenue's to be calculated on this inaccurate adjustment when all other adjustments are based on the current test year. This creates a significant financial impact on the District given the projected revenue needed.

It is unreasonable for the Commission to use the Case 2001-00105 variable cost figures for this case when there is no evidence that those numbers are relevant to the test year. The water sales, water production, power, sludge, chemical and other variable costs used in Hearing Exhibit 3 are all taken from schedules or general ledger accounts that were unchallenged and were used for other purposes throughout the cost of service study. To disallow those items for the purpose of one selected calculation without any finding that the numbers are erroneous is unreasonable and penalizes the District for using current, rather than four year old data.

Next, the order says that the Commission is unable to replicate the District's variable cost calculation of Hearing Exhibit 3. Except for the difference in test year water sales that the Commission used (3,885,765 ccf versus 3,609,488 used in Hearing Exhibit 3) the variable costs used, their source in the record and the actual mathematical calculations are all provided. If there is some misunderstanding of the exhibit by the Staff, the District should be given the opportunity to clarify the information and to remove any misunderstanding that may be unnecessarily depriving the District of legitimate revenue.

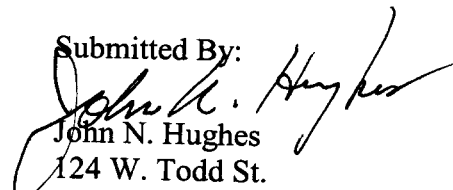
The District believes that the order is erroneous, relies on inaccurate test year costs and provides insufficient revenue to meet the District's needs. The order's conclusion that "the District has failed to persuade the Commission that its adjustment in Case 2001-00105 is inaccurate or unreasonable" is irrelevant to the issue in the pending case. The burden on the District was to prove that the current cost is accurate and reasonable. Using test year

figures, undisputed for use throughout the case, and a methodology consistent with the prior case, there is little else that the District could have provided in way of explanation or justification of the reasonableness of the adjustment.

The second issue for rehearing is found on page 12. The Commission adjusts benefits by removing Commissioner's retirement. The District's Commissioners do not receive retirement benefits, therefore, this adjustment is inappropriate.

For these reasons, a rehearing on the matter of the correct test year cost of service expenses for Boone and Florence and exclusion of Commissioner's retirement benefits should be granted.

Submitted By:

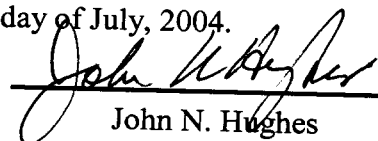
  
John N. Hughes  
124 W. Todd St.  
Frankfort, KY 40601

and

Charles H. Pangburn III  
Hemmer, Spoor, Pangburn,  
DeFrank PLLC  
Suite 200  
250 Grandview Dr.  
Ft. Mitchell, KY 41017

Attorneys for Northern Kentucky  
Water District

I certify that a copy of this motion was served on the Attorney General, 1024 Capital Center Dr, Frankfort, KY 40601 by first class mail the 1st day of July, 2004.

  
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John N. Hughes